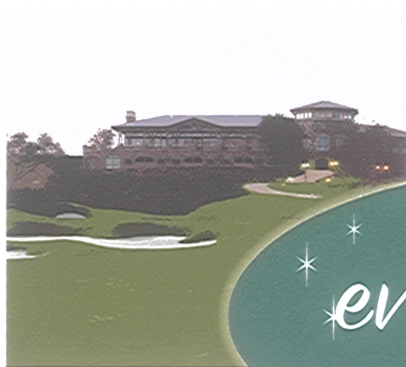
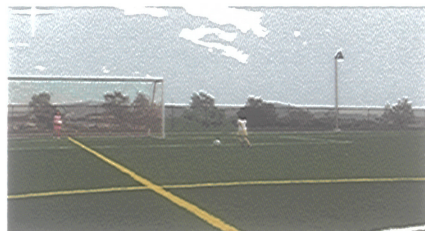


CARLSBAD

* CALIFORNIA *



...it's the
ever-evolving
city!





City of Carlsbad

Office of the City Manager

To the Honorable Mayor and City Council:

2008-09 BUDGET TRANSMITTAL

I am pleased to submit the FY 2008-09 Operating Budget and Capital Improvement Program for the City of Carlsbad. The combined budget totals \$252.5 million, with projected revenues of \$240.3 million. Of the total budget, \$195.2 million (77%) will be used to fund the operations of the City, while \$57.4 million (23%) will go toward the construction of capital improvements throughout Carlsbad. Our goal has been to prepare a comprehensive financial plan for services, programs, and capital projects that will assist the Council in the achievement of its vision for Carlsbad.

The FY 2008-09 budget was developed this year with the emphasis on fiscal conservatism especially in light of the weak economy. Due to Carlsbad's diverse local economy, the City may not be as negatively affected as other parts of the nation; however, Carlsbad will still be impacted by the economic slowdown. The revenues anticipated to be generated during FY 2008-09 are expected to grow at a much slower pace than in previous fiscal years. This slowdown in revenue growth has dictated the amount available to spend on the operations of the City. There are no new programs or services that are being added this year and the only positions being added are to operate new facilities that are being opened during this fiscal year.

The development of the budget also considered creating a sustainable community. The City is approaching buildout and will be ushering in a new era focusing on maintaining the City's infrastructure rather than building it. It requires that we provide excellent services for the developing community today but also ensure that the City is poised to make the transition and address the needs of a fully built out city in the near future. The FY 2008-09 Budget reflects the anticipation of these changes by using methods that fulfill the current demand while allowing for a smooth transition into a maintenance mode in the future.

Overall, the Operating Budget has increased by 4.0%. The increase is predominately due to the increased costs of providing existing levels of services as well as the increased efforts for infrastructure maintenance in Water Operations and the 2.5 new positions being added to operate the new Library Learning Center and Poinsettia Tennis Courts. The City's total Capital Improvement Program budget contains approximately \$451.8 million for 144 projects to improve the City's roads, parks, water and sewer infrastructure and build civic projects through buildout.

A large portion of the capital program will expand the City's recreational venues with the addition of tennis courts and parking at Poinsettia Park, the Alga Norte Park and Aquatics Center and building and opening a Library Learning Center to permanently house the Adult Learning and Centro de Información programs. Finally, the City is working on numerous road segments that will greatly enhance its transportation system as well as water projects that will ensure an adequate water supply for Carlsbad's residents and businesses. A large number of the resources in the operating budget will be dedicated to meeting the development schedule for these and many other projects contained in the Capital Improvement Program.



Carlsbad has had a relatively healthy local economy over the past five years provided the stimulus to attract additional revenue-generating sites to Carlsbad; adding to the City's strong and diversified revenue base. Even with the economic slowdown, the City's assessed property values are expected to increase by approximately 7% this year. Carlsbad's reputation as a tourist destination is also continuing to grow with many new hotels added in the recent past, generating over \$14.3 million in transient occupancy taxes for FY 2007-08. The State and U.S. economies continue to face challenges and this current economic slowdown is anticipated to affect the local economy in Carlsbad and has been taken into consideration in the revenue forecast.

One of the systems in place to keep the City financially strong is the Infrastructure Replacement Fund. This fund was set up to ensure that resources are available when needed to replace the City's streets, sidewalks, buildings and other infrastructure. The City of Carlsbad is relatively new, so it has not yet experienced the significant cost of replacing the infrastructure as it ages. We are just beginning to experience the high cost of major repairs on some of our older roads. The Infrastructure Replacement Fund will be used to accumulate funds and pay for the replacement of the City's infrastructure as needed. This year's budget allocation is approximately 6.5% of the General Fund revenues for a total of a \$7.8 million allocation for this program.

Carlsbad has recently adopted a General Fund reserve policy to help ensure that adequate levels of fund balance are available to help mitigate current and future risks. The reserve can be used to help address unanticipated events including emergencies and natural disasters. The City Council has implemented a minimum General Fund reserve of 30% of the General Fund Operating Expenditures and a target of achieving a reserve of up to 40-50% of the General Fund Operating Expenditures. The target reserve would be pursued whenever fiscally possible and financially prudent to do so.

Over the City's past 50+ years, Carlsbad has continued to grow and prosper as a result of the vision and leadership of its City Council. The Council's commitment to their vision, and their willingness to provide the funding to achieve it, has resulted in a highly desirable City in which to live, work and play. The FY 2008-09 Operating and Capital budgets continue to provide for a high quality of life for current citizens, as well as laying the groundwork so that future generations will also be able to enjoy the substantial benefits of our community. Continuing to balance the desire to provide top quality services with slowing revenue growth and higher service costs will continue to be the City's challenge in the years to come.

I would like to express my appreciation to the City Council for providing the direction and support that are crucial to the ability of the City to achieve its goals. I would also like to recognize the contributions of City staff for not only creating a successful operating plan and Capital Improvement Program, but also for their commitment to providing top quality services to all who live, work, and play in Carlsbad. Their efforts are critical to the City's ultimate success. I offer them my appreciation for a job well done.



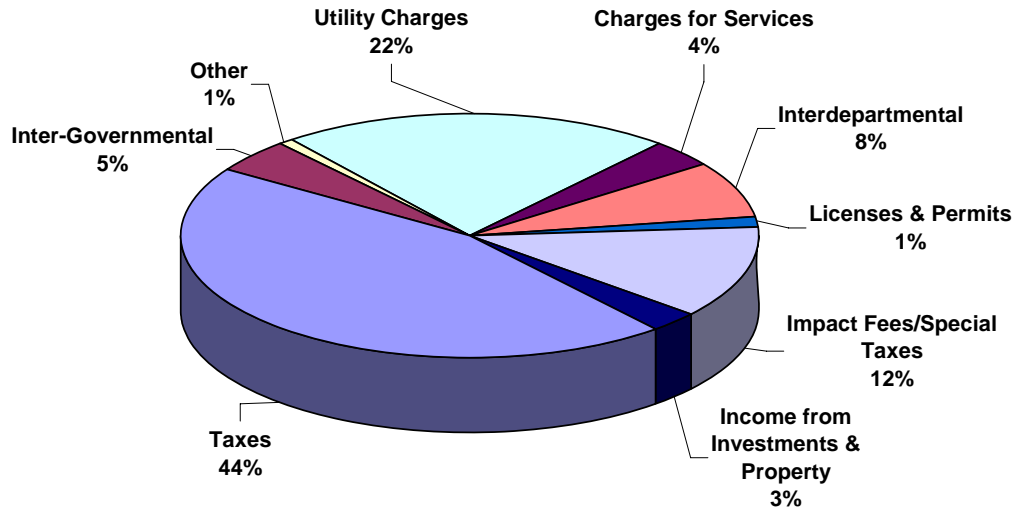
LISA HILDABRAND
City Manager

CITY OF CARLSBAD BUDGET HIGHLIGHTS

CITY OF CARLSBAD BUDGET HIGHLIGHTS FISCAL YEAR 2008-09

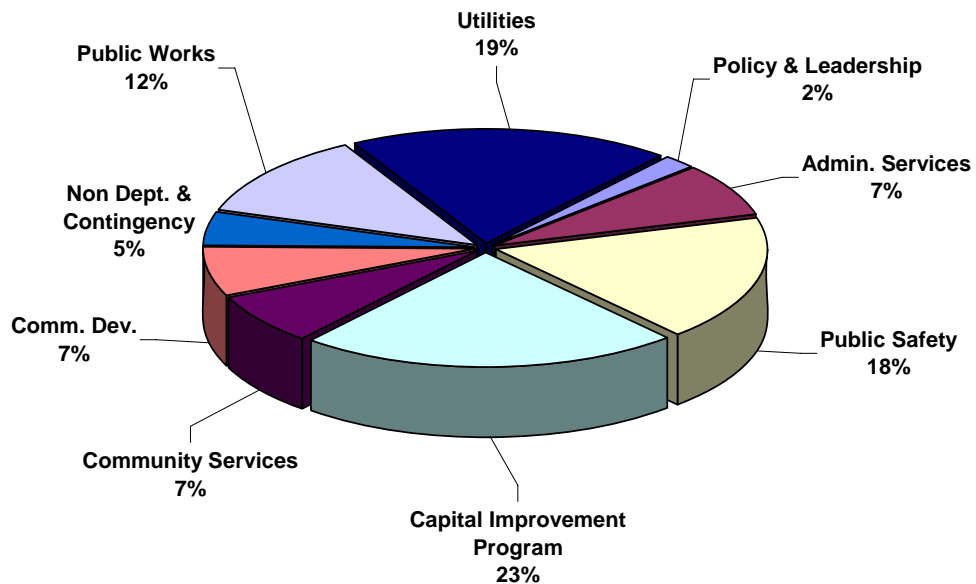
WHERE THE MONEY COMES FROM...

ESTIMATED REVENUES \$240.3 MILLION



WHERE THE MONEY GOES...

ADOPTED BUDGET \$252.5 MILLION



CITY OF CARLSBAD BUDGET HIGHLIGHTS

The City's budget is comprised of two pieces; the operating budget and the capital improvement program budget (CIP). The CIP provides the funds to build the parks, roads, buildings, and other infrastructure of the City while the operating budget provides the money to staff and operate them. The operating budget totals \$195.2 million and is expected to generate \$199.1 million in revenues. The CIP contains the current year budget allocation of \$57.4 million and outlines approximately 144 future projects at a total cost of \$451.8 million through buildout of the City. Capital revenues for Fiscal Year 2008-09 are estimated at \$41.1 million. The capital projects include parks, civic facilities, as well as infrastructure needs anticipated for the future that are not expected to be constructed by developers.



The budget overview on the following pages will provide the reader with a good understanding of the budget process and the economic profile of the City as well as with a broad overview of the services and projects planned for the 2008-09 Fiscal Year. This section also addresses debt management, including a schedule of the outstanding bond issues. More detail on the City's numerous programs and projects can be found throughout the remainder of the document.

BUDGET PROCESS

The budget process for the City of Carlsbad begins in January each year, with a review and update of the City Council's five-year vision statements. Through the vision statements, Council defines and clarifies their vision of Carlsbad. The City Council also provides the City with their top 12 priority projects, which further defines their vision. The strategic goals for the City are developed next. These statements are reflected in the box on the right. The goals further define the methods used to achieve the vision and highlight areas where Council desires to place special emphasis during the year. Once the vision, goals and priority projects are developed, staff develops operational goals based on Council's direction. These operational goals are the basis for the development of the Operating Budget.

City of Carlsbad Strategic Goals

Balanced Community Development - Connect community, place and spirit, through balanced and economically sustainable land uses.

Citizen Connection And Partnership - Embrace community connectivity through the effective use of technological and interpersonal mediums.

Communication - Ensure that community members, Council and staff are well informed, continuing to be a more responsive government while providing a high level of citizen confidence in its government.

Environmental Management - Support an environmentally sensitive community by focusing on: conservation, storm water, sewage collection and treatment, solid waste, and cost effective and efficient use of energy including alternative energy sources.

Financial Health - Pursue and implement proactive strategies that support sustainable economic health and manage City resources effectively.

Learning, Culture & Arts - Promote and support continuous learning, cultural opportunities and the arts within the community and the City organization.

Parks / Open Space / Trails - Acquire, develop and maintain a broad range of open space and recreational facilities that actively address citizen needs which are fiscally responsible, and are consistent with the General Plan and Growth Management Standards.

Safe Community - Maintain a safe and secure community through collaborative partnerships. Public safety providers support high standards, deliver protection of life and property and encourage community involvement in prevention and preparedness efforts

Transportation / Circulation - Provide and support a safe and efficient transportation system that moves people, services and goods throughout Carlsbad.

Water - Ensure, in the most cost-effective manner, water quality and reliability to the maximum extent practical, to deliver high quality potable and reclaimed water incorporating drought-resistant community principles.

CITY OF CARLSBAD BUDGET HIGHLIGHTS

Carlsbad's Operating Budget is a tool that guides the achievement of Council's vision, goals and priority projects for the City. The budget allocates the resources, and sets the priorities for the programs offered by the City. Thus, it is an integral part of making Carlsbad a wonderful community in which to live, work, and play. In addition, the budget is a fiscally conservative balanced budget, to effectively sustain the community and essential City services far into the future.

ECONOMIC PROFILE



The **US economy** is now in a slow down period which is expected to last through the middle of calendar year 2009. According to the Bureau of Economic Analysis, the economy grew at an annual rate of 1.0% in the first quarter of 2008, which is an improvement over the 0.6% growth in the fourth quarter of 2007. While the US economy is slowing, a recession is not anticipated by UCLA Anderson Forecast. The economists from UCLA believe that the economy will be

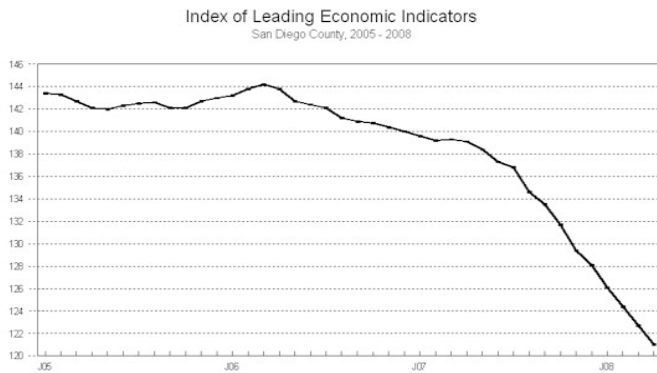
sluggish, however, they do not see the huge factory layoffs that have led to previous economic downturns. Most economists do not share their optimism and believe the nation has already entered into a recession or is about to enter one.

While UCLA Anderson Forecast is not expecting a recession, there are some unknowns that may result in a higher risk potential. The housing market is expected to continue to be slow but it is still unclear how slow it will be. With actual declines in housing prices, there may be more risk to the economic outlook as more defaults on mortgages occur. In addition, UCLA Anderson Forecast Senior Economist David Schulman warned that the growing limitation on credit could help push the economy into a recession.

California's economy continues to slow as well. The *Financial Times* reports that "California, the biggest state economy in the U.S., is either in recession or on the brink many economists now believe." Increases in unemployment and the soft housing market with contraction of the construction industry, have slowed California's economy. UCLA Anderson Forecast is predicting that California's unemployment rate will be 6.3% by the end of 2008. The subprime mortgage market has led the softening of the real estate market. Mortgage defaults are rising with the potential of high foreclosure rates during the summer of 2008. All of these factors have helped slow the California Economy and have caused economic uncertainty. This economic uncertainty is at the forefront as the City of Carlsbad develops a budget for FY 2008-09.

Locally, the **San Diego economy** is slow as well, according to several local economists, including University of San Diego (USD) economist Alan Gin. The University of San Diego's Index of Leading Economic Indicators for San Diego County declined 1.4% in April 2008 which has been falling 24 of the last 25 months. In April of 2008, there were sharp declines in four of the six components including building permits, consumer confidence, unemployment insurance and help wanted advertising. For the rest of 2008, Alan Gin is predicting job growth either flat or negative and continued weakness in the housing market. According to Alan Gin, the local economy is expected to be weak through the rest of 2008 and into the first part of calendar year 2009. The weakness will be reflected in lower economic activity in areas such as retail and home sales and a slow growth rate for employment. A chart reflecting USD's economic indicators is reflected below.

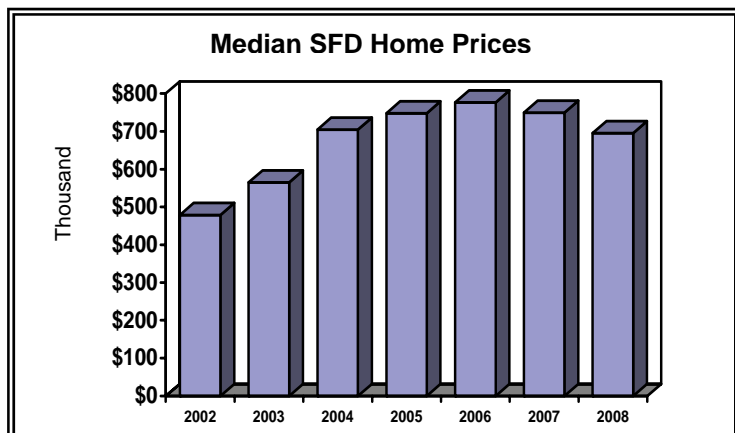
CITY OF CARLSBAD BUDGET HIGHLIGHTS



The total USD index for April 2008 is 121.0, which is down 13% from the April 2007 index of 139.5. It is unclear how much longer the index will continue on this declining trend. What is clear is that the real estate market and gasoline prices have had a significant impact on San Diego's economy and will very likely continue to impact USD's consumer confidence component of the index.

Carlsbad's economy is tied closely to that of the San Diego region, although development patterns may differ. While Carlsbad experienced continued growth in FY 2007-08 in property taxes and Transient Occupancy Taxes (TOT), the growth is expected to slow due to the uncertainty in the economy. Property taxes are expected to grow by approximately 5% in FY 2008-09 which reflects the lag time between the payment of property taxes and the housing price decline. TOT, the City's gauge of the tourism industry, are expected to grow by 8.8% over FY 2007-08 estimates, with a large part of that coming from the opening of several hotels including the Sheraton Carlsbad Resort and Spa, Homewood Suites and Hampton Inn. Sales taxes are expected to be flat for FY 2008-09 due to the slower economy as well as a decline in auto sales.

Carlsbad's residential real estate market has slowed significantly throughout FY 2007-08. For FY 2007-08, the City has issued 339 dwelling units as compared to 472 dwelling units for FY 2006-07. For Industrial and Commercial, the City has permitted 1,237,300 square feet for FY 2007-08, compared to 1,616,301 square feet for FY 2006-07. The number of permits is expected to continue to decline due to a lack of supply of developable land and a slowing economy. There are a number of new residential communities under construction or in the final phases of development that will add to the residential housing stock in Carlsbad. The Villages of La Costa projects known as the Oaks North, the Greens and the Ridge are under construction, and will add approximately 970 single-family and 450 multi-family units when complete. In addition, the Robertson Ranch area, which is expected to contain nearly 1,000 residential units, is currently in the grading process. The completion of these master planned communities will signal an end to the large-scale residential developments in Carlsbad.



CITY OF CARLSBAD BUDGET HIGHLIGHTS

As the housing market has cooled, the housing prices have declined as well. The median price for single-family homes in Carlsbad was \$750,000 for April 2007 compared to \$695,000 for April 2008, a decrease of 7%. The total assessed values in the City stand at over \$22 billion; an increase of nearly 55% over what they were just five years ago. The City is projecting it will add about 1,400 more residential units and an additional 2.5 million square feet of commercial/industrial development over the next five years. The City's residential housing stock is about 90% built out, with approximately 4,568 housing units remaining to develop.

Commercial and industrial development has been averaging 1,000,000 square feet per year over the last five years. Due to the economic uncertainty, it is expected that commercial and industrial development will average 500,000 square feet per year over the next five years with the large industrial developments including Carlsbad Raceway, Oaks North Industrial Park, and the La Costa Town Center. Some of the major companies in town include the Gemological Institute of America, ViaSat, Invitrogen, Callaway, Taylor Made, Upper Deck, and many others.

Commercial development has brought much needed entertainment and shopping venues to citizens and visitors alike, as well as generating additional sales taxes to help pay for City services. Carlsbad is home to Car Country Carlsbad – an auto mall; the Carlsbad Premium Outlets – a specialty outlet center; Plaza Camino Real – a regional shopping mall; a Costco center; and the Forum at Carlsbad – a commercial center with upscale retail shops, restaurants and other commercial uses.

Development has also enhanced Carlsbad's reputation as a destination resort for tourism. The City is host to a major family theme park: Legoland, and has two luxury resorts available for its visitors: the Four Seasons Resort at Aviara and the La Costa Resort & Spa. There are also a number of other quality hotels and motels in the City, with the most recent additions being the Sheraton Carlsbad Resort and Spa, Homewood Suites and Hampton Inn.

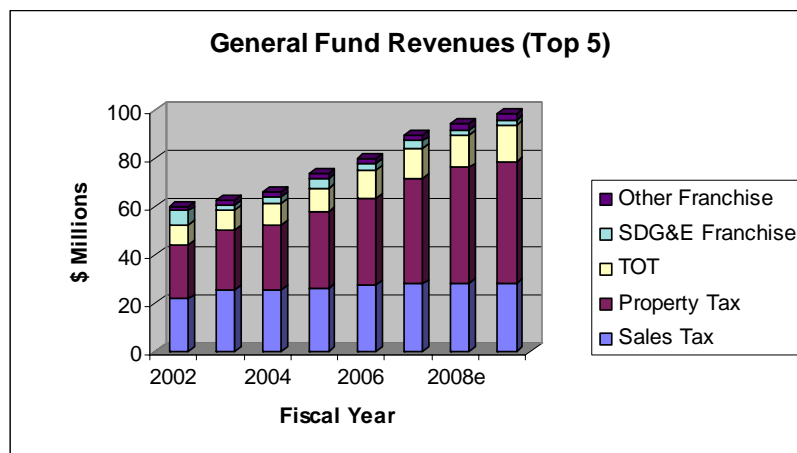
The City of Carlsbad opened a municipal golf course in the summer of 2007 which has further enhanced the tourism attractions the City offers. The municipal golf course, The Crossings at Carlsbad, is an 18-hole, destination golf course set in the rolling hills and canyons of Carlsbad. With ocean views, high quality golf experience, a first class restaurant and clubhouse, and linkages to hiking trails, The Crossings at Carlsbad is a destination spot for golfers and non-golfers alike.

It is the Council's goal to ensure that the City remains in good financial health, and there are a number of steps the City has taken to attain that goal. One of the steps is the Growth Management Plan. This plan was adopted by the citizens to ensure that all necessary public facilities were constructed along with development. It also ensures that a financing plan is in place to pay for the facilities prior to the development of the property.

In addition to the Growth Management Plan, the City also prepares a long-term financial model for both the capital and operating needs of the City. With a growing city such as Carlsbad, it is imperative that we plan for the impacts of the economy, serving new development and operating new public facilities, as well as planning for capital needed to build them. Thus, the City prepares a ten-year operating forecast for the General Fund, and a 20+ year Capital Improvement Program. As part of the Capital Improvement Program, the City annually calculates the amounts needed to pay for the various projects, and calculates the anticipated operating budget impacts. In this way, the City can anticipate the effects of development from both a capital and an operating perspective.

CITY OF CARLSBAD BUDGET HIGHLIGHTS

One important initiative the City has undertaken to ensure its financial health is the development of an Infrastructure Replacement Fund. With this fund, the City sets aside money on an annual basis for major maintenance and replacement of its infrastructure. Much of the City's infrastructure is relatively new; thus, the City has not felt the full impact of maintenance requirements. By setting aside funds now, the citizens of Carlsbad can be assured that the proper maintenance and replacement, when needed, will be performed on streets, parks and many facilities for which the City is responsible.



Even with the economic slowdown, Carlsbad's current economic position is an enviable one. A relatively healthy and well diverse local economy over the past ten years provided additional revenue-generating sites that allowed the City to continue to add new facilities and services for the citizens. The City hosts three regional shopping areas within its boundaries; a large regional mall, an outlet center,

and a high-end retail center in the southern part of town called The Forum. Together, these sites contribute approximately \$4.5 million annually to the City's sales taxes. The City's Auto Mall generates another \$6.0 million per year in sales taxes for the City. Legoland, a family theme park, contributes to the City's sales tax base and stimulates the development of new hotels in the area. The four major revenue sources for the City: property taxes, sales taxes, transient occupancy taxes (TOT), and franchise taxes, are expected to provide \$98 million, or 82%, of the City's General Fund revenues in FY 2008-09. These taxes and fees are the major source of funding for most of the City's services, and allow the City to live up to its reputation as one of the premier locations in San Diego County.

The City's sales taxes are projected to be relatively flat for Fiscal Year 2008-09 due to the slowdown in the economy. While the growth in housing prices is expected to moderate due to the cooling of the real estate market, there is a lag with the property tax revenues and therefore, according to the County Assessor, the City should expect property tax revenues to increase by over 5% for FY 2008-09. New building permits are expected to continue to slow and the development related revenue items have been reduced accordingly for Fiscal Year 2008-09. And finally, tourism is expected to be impacted by lower consumer confidence including higher gasoline prices; however TOT receipts are still projected to grow by almost 9% in the future, with the addition of more available rooms. More information on all of the City's revenues and programs can be found in the later sections of the document.



State of California – In addition to the economic uncertainty led by the slow housing market and consumer confidence declines, the State of California's fiscal problems also cast a shadow on the City's economic future. The State of California has been in a severe fiscal crisis for a number of years. Through a variety of loans, one-time revenues, interfund borrowings, and raids on city, county and special district funds, it has been able to manage its cash flows and stay solvent. However, more drastic measures will be needed for the state to finally get its budget in balance.

CITY OF CARLSBAD BUDGET HIGHLIGHTS

According to the Legislative Analyst's Office (LAO), the state is facing a significant budget deficit in FY 2008-09 of approximately \$22 billion. The LAO's analysis of the Governor's May Revise Budget for FY 2008-09 reflects that the state is proposing to securitize lottery revenues, impose expenditure reductions across the board, and further reductions to health and social services programs to help reduce the budget deficit. The state has balanced its budget by taking City money in the past, and the risk is that they may find a way to make it happen again.

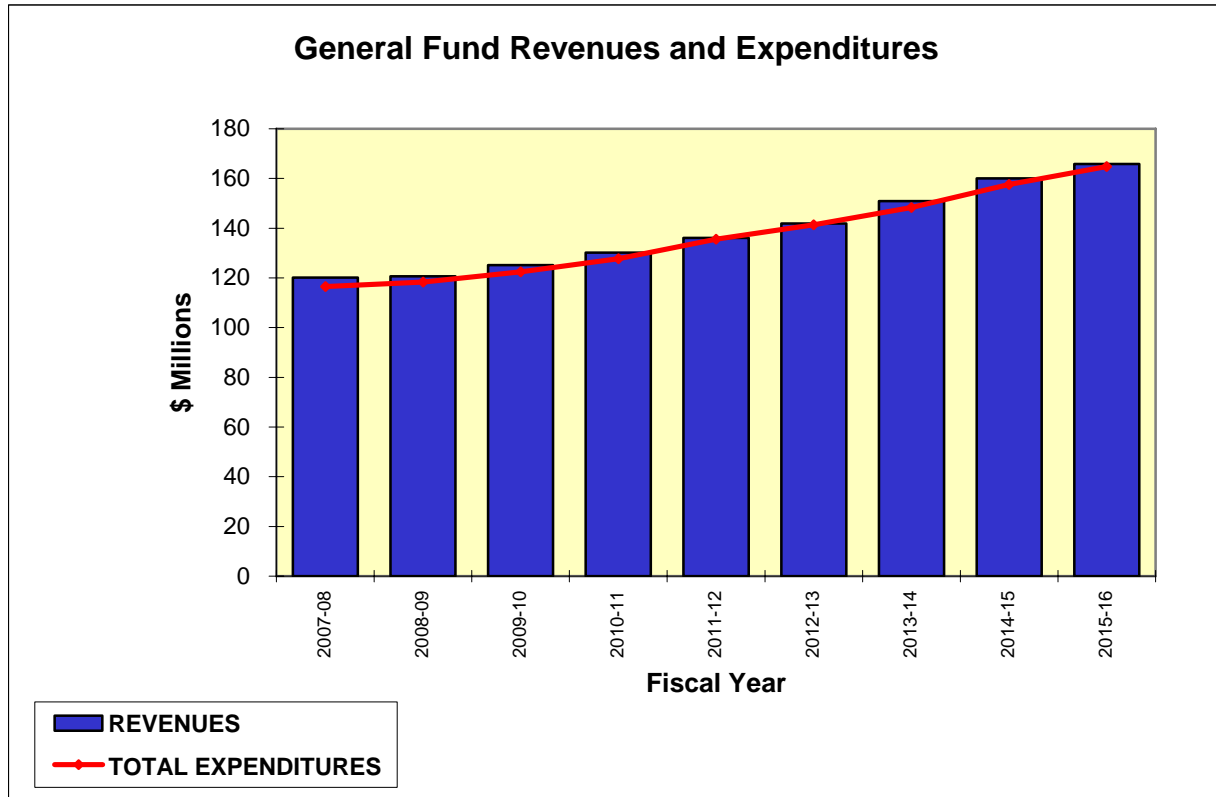
As a result of the continued attacks on cities' revenues, a coalition of cities, counties and special districts supported Proposition 1A which was approved by the voters in November 2004. The measure included a provision to help prevent the Legislature from reducing the combined property tax shares of cities, special districts, and the county, except to borrow the funds on a temporary basis to address a "severe state fiscal hardship." Currently, the Governor's May Revise Budget for FY 2008-09 does not include a proposal to borrow local governments' property tax revenues and City staff will continue to monitor the state's budget solutions to determine whether this option is being explored.

Looking Forward

As stated earlier in this document, the City prepares ten-year forecasts for the General Fund each year in order to understand the effects of actions taken today on the City's future. The City has experienced remarkable revenue growth over the past ten years due to the development of the majority of its commercial sites. Currently the economic uncertainty has created a forecast with much smaller surpluses projected than in the recent past. The future will bring a few more commercial sites but at a slower pace, and residential development will continue for a number of years also at a much slower pace. There are also quite a few City facilities – mainly parks and civic facilities – planned in the future to serve the growing population. The new facilities will add operating costs to the City's General Fund budget as they are completed and opened for use.

These new facility operating costs have been incorporated into the General Fund forecast shown below and projected over the next ten years. In addition, the economic uncertainty has impacted the City's revenue growth and could limit the City's capacity to add new facilities to operate and maintain. The emphasis will continue to be maintaining existing infrastructure. New civic facilities will be planned when there is anticipated financial capacity to operate and maintain those new facilities when they are opened. While no forecast is ever totally accurate, it does represent a likely scenario given the assumptions on which it is built.

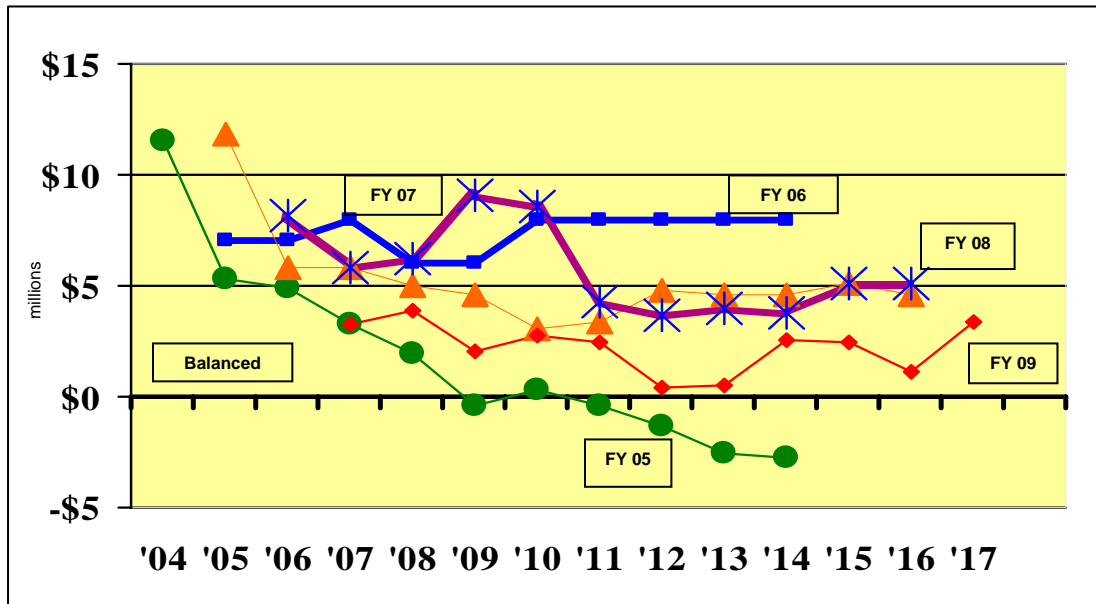
The forecast assumes that revenue growth will be relatively flat in FY 2008-09 and then very moderate growth for the following two years, assuming the economic slowdown will last two to three years. To project the expenditures, it includes all known personnel costs, most of which have been negotiated with the employee groups through December 2009.



The forecast assumes 10% annual increases in health care costs in the near future with the employees paying half of those increases. It also assumes personnel growth (new positions) to remain rather flat at no more than 1.2% per year. Cost of living increases between 3% and 4.5% have been added to personnel costs. Pension plan costs are anticipated to remain essentially at current levels. It assumes that the contribution from the General Fund to the Infrastructure Replacement Fund is 6.5% of General Fund revenues. And finally, it includes estimated operating costs for all capital projects in the timeframes shown in the Capital Improvement Program (CIP). One of the biggest assumptions in the forecast is that services remain the same. No new services have been anticipated, although growth in current services to match the growing population has been incorporated.

The results show that the General Fund is balanced into the future, with much smaller surpluses than in previous years' forecasts. This reflects the current economic slowdown and uncertainty. In order to maintain a balanced 10 year forecast, position growth will be limited. There is a projected surplus in each year of 0% to 3% depending on the year. This achieves the goal set out by Council to maintain a balanced budget over the long term.

City of Carlsbad 10-Year Financial Forecast



The ability to understand the future impacts both changes in revenue sources as well as program needs, is crucial to ensure that the City has the funds available to realize its future plans. The General Fund forecast is a tool available to the City to achieve the goal of managing its fiscal resources effectively and monitoring the achievement of sustainable economic health for the City of Carlsbad into the future. When there is economic uncertainty, this long-term perspective becomes even more important.

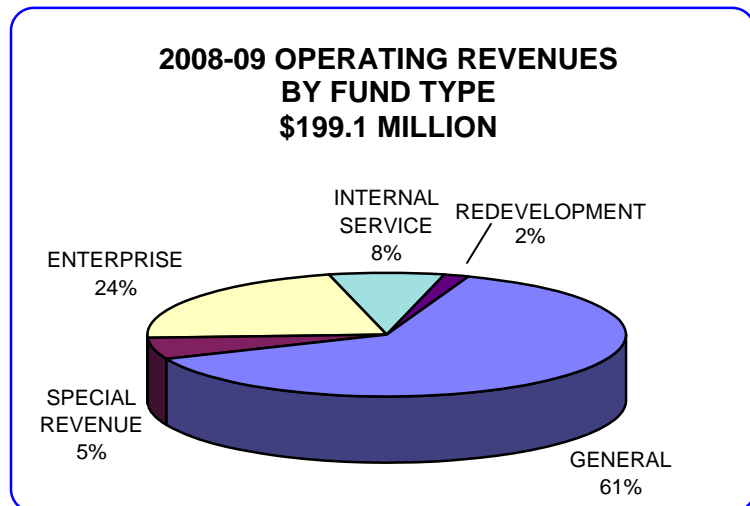
OPERATING BUDGET

Revenue Projections by Fund

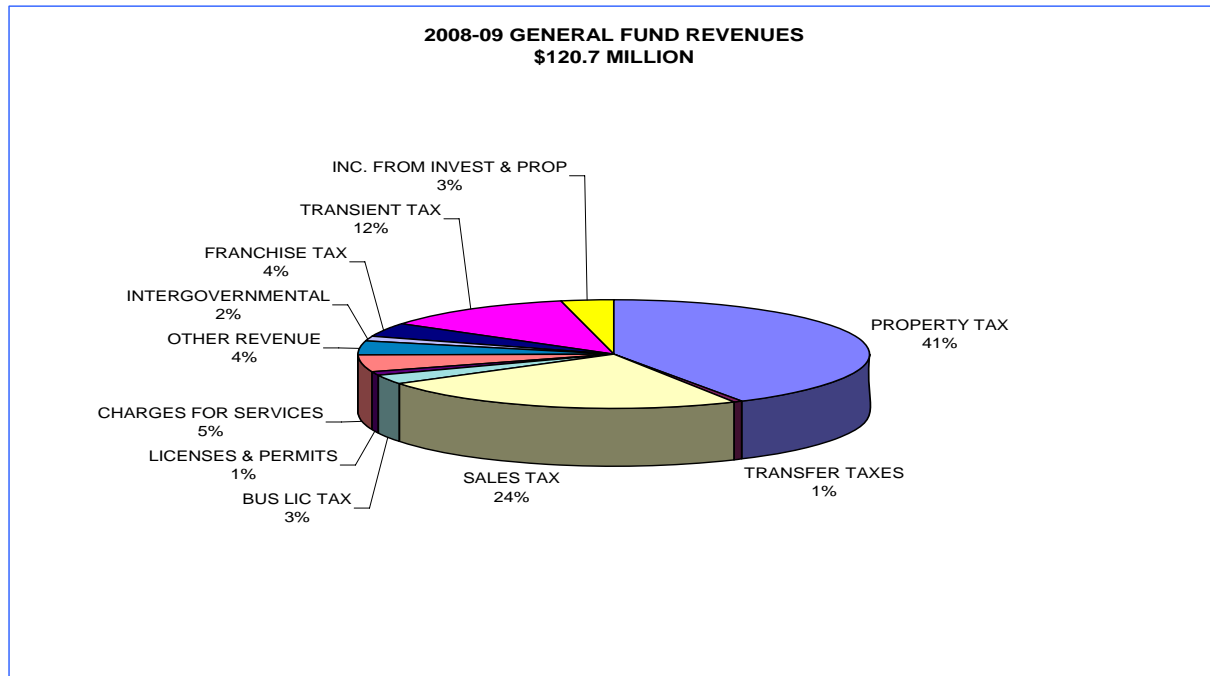
The City's operations are divided into various funds. Each fund has been established because of certain restrictions placed on the use of the resources received by that fund. Any unrestricted funds are placed in the General Fund. Estimated revenues for the City's five fund types are shown on the accompanying graph.

General Fund

The fund receiving the largest slice of the revenues is the General Fund, with estimated revenues of \$120.7 million. The General Fund pays for most of the City services available to City residents. The majority of the General Fund revenues (85%) are derived from taxes. The graph below illustrates the sources of revenue to the General Fund.



CITY OF CARLSBAD BUDGET HIGHLIGHTS



Property taxes, at \$50.3 million, are the largest General Fund revenue. The City receives only about 18% of the property taxes paid by its citizens. The remainder of the tax goes to the school districts, the state, and other various agencies.

Sales tax is the second largest source of revenue for the General Fund. Sales taxes are estimated to bring in \$28.5 million for Fiscal Year 2008-09. Automobile and retail sales are the most significant contributors to the category of sales tax.

Transient occupancy taxes (hotel taxes) are estimated at \$14.8 million and are the third largest revenue source for the City. Franchise taxes, transfer taxes, and business license taxes make up the remaining \$9.0 million in tax revenues collected by the City.

Intergovernmental revenues are revenues collected by the State and other governmental agencies and allocated to the City based on a formula. Examples of intergovernmental revenues include motor vehicle license fees, State mandated cost reimbursements, and homeowner's exemptions. Intergovernmental revenues are estimated at \$1.9 million for the upcoming year.

Licenses and permits account for \$1.5 million of the General Fund revenues and include building permits and other development-related permits. Charges for services are estimated to be \$6.1 million and include fees for engineering, planning, building, recreation, and ambulance services.

Other revenue sources include charges collected from other departments, fines and forfeitures, and miscellaneous revenues. Those sources total \$4.8 million. Income from investments and property are estimated at \$3.9 million.

Special Revenue Funds

Revenues from Special Revenue funds are estimated at \$11.2 million for 2008-09. Funds collected in this category are legally restricted to specified purposes. Examples of funding resources include donations, grants, and special assessments. The types of functions supported with Special Revenue funds include programs such as Section 8 Housing Assistance, Housing Trust Fund, Community Development Block Grants (CDBG), and maintenance and assessment districts.

CITY OF CARLSBAD BUDGET HIGHLIGHTS

Enterprise Funds

Enterprise funds revenues make up the second largest revenue group, totaling \$47.7 million. Enterprise funds operate similar to a business in that they charge fees to cover the cost of their services. Examples of the City's enterprises include water and wastewater services and solid waste management.

Internal Service Funds

Internal Service fund revenues, projected to be \$15.6 million, are derived from charges to the City programs that benefit from the services rendered. The funds collected must be used specifically to support the internal service. Examples of the City's Internal Service funds include Liability, Health Insurance, Information Technology, Workers' Compensation, and Vehicle Maintenance and Replacement.

Redevelopment Agency

Redevelopment Agency revenues, estimated at \$3.9 million, come mainly from property taxes collected within the redevelopment area. Carlsbad has two redevelopment areas. The original area consists of 204 acres located in the downtown "Village Area" of the City. The second area encompasses the land on which the Encina power plant is located as well as additional parcels south of the plant. Funds collected within the redevelopment areas must be used to repay the debt incurred and administration of the Agency.

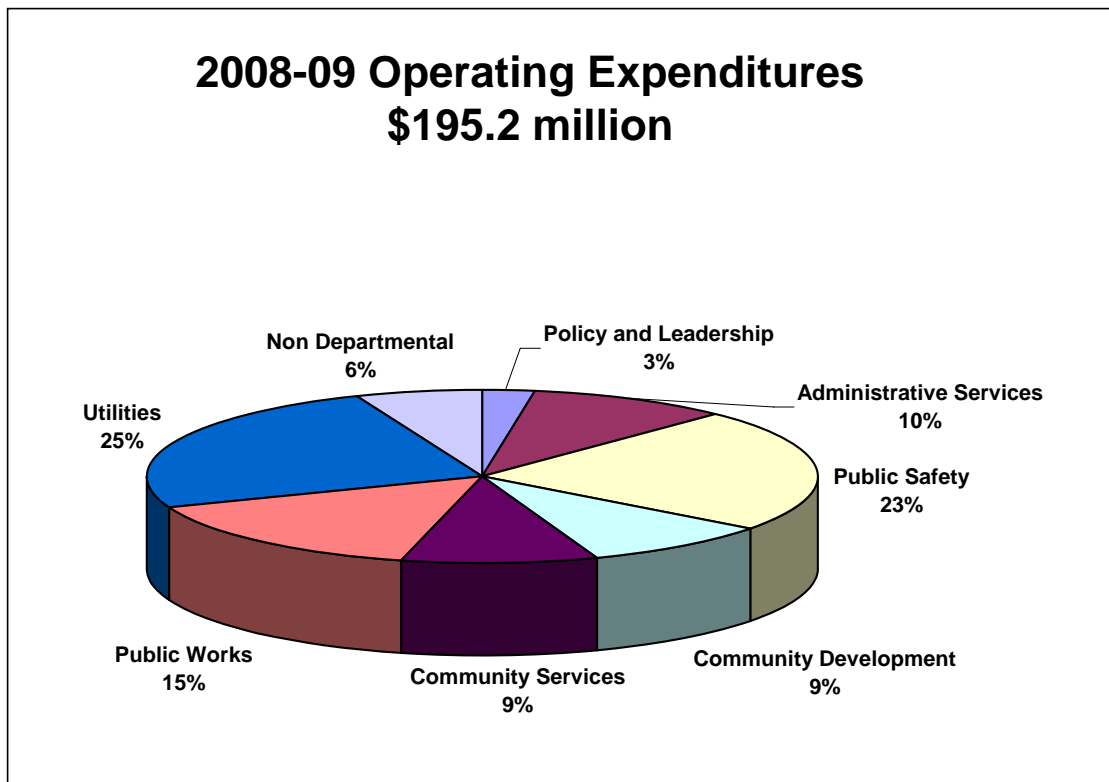
OPERATING BUDGET BY PROGRAM

The total operating budget for the City for Fiscal Year 2008-09 equals \$195.2 million, which is approximately 4% more than the 2007-08 adopted budget. The operating budget is categorized by major service area (MSA). Six MSAs that represent the key businesses of the City have been identified. The graph on the following page shows the operating budget for each of the MSAs.

Total funding allocated for the Policy and Leadership Group for 2008-09 is \$5.1 million. This MSA encompasses all elected officials and the chief executive offices for the City. These include the offices of City Council, City Manager, Communication, City Clerk, City Attorney, and City Treasurer.

The Administrative Services MSA, with a budget of \$18.8 million, includes finance, records management, human resources, purchasing, information technology, health insurance, risk management, and workers' compensation. These areas mainly provide services to internal City departments.

Public Safety services are funded at \$45.2 million and include all of the police and fire programs such as police patrol, vice/narcotics, juvenile diversion and DARE programs, fire prevention, emergency operations, and disaster preparedness.



Community Development, with a budget of \$17.5 million, provides the services that guide and oversee the planning and development of Carlsbad as depicted in the City's General Plan. The General Plan is the base document that expresses the goals and public policy relative to future land use. It acts as a "constitution" for development and is the foundation upon which all land use decisions are based. Also included under Community Development are the housing and redevelopment programs.

Community Services, with a budget of \$18.4 million, is made up of the library, recreation, cultural arts, and seniors programs. These programs are provided to a wide range of people and assist in their education and cultural development.



The service area requiring the largest amount of funds is Public Works, with a budget of \$78.4 million. Public Works is responsible for the building and maintenance of all of the City's infrastructure and facilities and for the provision of utility services. It is comprised of the engineering, parks, streets, facilities, fleet, water, and sewer departments.

The Non-Departmental and Contingency accounts total \$11.7 million and include programs benefiting the City as a whole such as community promotions, community contributions, assessment services, transfers to other funds, and Council's contingency account. Included in the non-departmental group is a \$7.8 million transfer to the Infrastructure Replacement Fund. This program sets aside funds for the replacement of the City's base infrastructure. The contingency account, which is available to Council for emergencies and unforeseen program needs that arise during the year, is budgeted at \$2.3 million. The contingency account amounts to 2.0% of the FY 2008-09 General Fund budget.

CITY OF CARLSBAD BUDGET HIGHLIGHTS

STAFFING

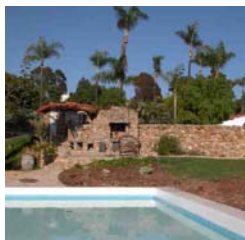
The FY 2008-09 Operating budget includes 3.0 new full-time employees: 1.0 new Building Maintenance Worker, .05 new Parks Maintenance Worker, and .05 new Information Technology Systems Administrator I to maintain the new facilities opening in FY 2008-09; and reclassification of a 1.0 limited-term Management Intern to a full-time Management Analyst in the City Manager's office. The net decrease in hourly staff totaled approximately 2.51 full-time equivalents (FTE). These changes result in a City workforce of 714.25 full and three-quarter time employees and 137.83 hourly FTE. The staffing changes in each of the City's programs are discussed more fully in the Operating Budget Overview.

CAPITAL IMPROVEMENT PROGRAM

The City of Carlsbad's Capital Improvement Program (CIP) is a long-range planning document, which outlines the expenditure plan for current and future capital projects and the corresponding revenues to pay for those expenditures. Projects in the CIP consist primarily of new construction or major maintenance and replacement of City facilities such as parks, roads, civic facilities such as libraries, police and fire stations, and sewer, water, and drainage facilities. The Capital Improvement Program for 2008-09 totals \$57.4 million in new appropriations and an estimated \$144.5 million in continuing appropriations. Some of the notable capital projects include the following:

Park Development

- The **Alga Norte Park and Aquatic Center** consists of 30 acres in the Southeast Quadrant with planned amenities that include ball fields, soccer fields, picnic areas, tot lots, a skate park, a dog park, restrooms, parking facilities, and an aquatic center. The aquatic center will include a 50-meter competition pool, a 12-lane instructional pool and a therapy pool as well as a water play area with slides. A swimming pool complex was one of the projects approved by the voters through Proposition C in 2002. The total cost of the park is estimated to be \$22.1 million. The total cost of the aquatic center is estimated to be \$28.3 million. At this time, the City is reviewing the timing and phasing options for the various components of this project.



- **Leo Carrillo Park – Phase III** represents the third phase of this historic park facility restoration, and includes renovation of additional buildings, construction of additional restrooms, an arboretum area, and transformation of a barn into a community theater. The total cost is approximately \$2.9 million and design is expected to begin in FY 2009-10. In addition, in FY 2008-09 the City plans to expand the event area and construct a new patio area of approximately 2,500 square feet to provide a more attractive venue for events.

CITY OF CARLSBAD BUDGET HIGHLIGHTS

Civic Projects

- The **Public Works Center** will include offices, shops, a yard, warehouse and parking to accommodate the Public Works Department. The estimated cost to complete the project is approximately \$28.1 million.
- The **Joint First Responders Training Facility** project was authorized under Proposition C, which was approved in 2002. Preliminary design work for this facility is currently underway and preliminary plans include a 25-yard and 100-yard shooting range, a four-story fire training tower, a two-story residential training facility, an outdoor seating pavilion, and a fire administration office building with classrooms. The estimated cost to complete the project is approximately \$24.5 million.
- The **Civic Center** will consolidate City administrative operations and facilities into a more centralized location, and may include a variety of other services and recreational opportunities for citizens and visitors. Council, citizens and members of the business community have been participating in a visioning process to determine the anticipated needs for the citizens and for the City. Once the process is complete, a site will be chosen and design and construction can begin.



- The **Relocation of Fire Station No. 3**, which is currently located at the corner of Chestnut and Catalina, is needed to help ensure a five-minute response time as the City grows eastward. The new station is budgeted as a 6,200 square foot facility and the current proposed site is next to Calavera Community Park. The suitability of this location is currently under review. Total cost is projected at \$7.0 million.

Streets

- The **Carlsbad Boulevard Encinas Creek Bridge Replacement** project includes replacement of the existing bridge, originally constructed in 1913. The project is planned in the next 5 years at an estimated cost of \$4.4 million.
- The **Poinsettia Lane Reach E** project includes completion of the final link along Poinsettia Lane between Cassia Road east to Skimmer Court. The total cost is approximately \$13.1 million and the City expects to begin the design in FY 2011-12.
- The **Pavement Management Program** helps ensure that the City's streets can last a lifetime if they are properly maintained. Applying seals and overlays when roadways are beginning to show signs of distress can minimize the more expensive repair/reactive maintenance activities. The proactive approach consists of the scheduled application of a seal or overlay once every seven years, allowing the City to efficiently maintain over 344 miles of public roadways at an annual cost of approximately \$3.6 million.
- The **Concrete Repair Program** is a companion program to the pavement management program. It will ensure that curbs, gutters and sidewalks are also properly maintained. By allocating the funding, both pavement and concrete replacements can be accomplished at the same time. This will help maximize efficiencies and reduce inconvenience to the citizens. There is \$640,000 budgeted in FY 2008-09 for this program.

CITY OF CARLSBAD BUDGET HIGHLIGHTS

Sewer, Water, and Drainage Facilities

- Reaches 1 to 5, and 11 to 15, and the Agua Hedionda lift station of the **Vista/Carlsbad Interceptor** are scheduled over the next five years. These projects are required to handle buildout flows and replace deteriorated pipelines. The projects are predominantly funded by the City of Vista. The total estimated costs for all of the projects are approximately \$45.4 million. The City of Vista's share of the costs is approximately \$30.1 million, or 66% of the total costs.
- Several major **water lines** are scheduled for construction within the next five years:
 - Carlsbad Boulevard – south of Avenida Encinas
 - College Boulevard – Cannon Road to Badger Lane
 - Maerkle Transmission Main
 - Melrose Drive from Palomar Airport Road to Faraday



DEBT MANAGEMENT ISSUES

The use of debt has always been a primary issue in the development of the Capital Improvement Program and the policies to implement the Growth Management Program. Over the years, the City has issued millions of dollars of bonds and Certificates of Participation (COPs) to fund streets, buildings, sewer and water facilities, open space acquisitions, and other infrastructure projects. The City is continually evaluating its outstanding debt as well as potential future issues to ensure that interest costs are kept at a minimum and the use of the bond funds is appropriate.

During fiscal year 2007-08, the City issued bonds totaling \$18,175,000 under the provisions of the Mello-Roos Community Facilities Act of 1982. The bonds were issued to finance public infrastructure improvement projects for Community Facilities District #3, Improvement Area 2.

The table following the Summary identifies the debt the City has issued, the outstanding principal, the 2008-09 principal and interest payments, and the scheduled fiscal year of payoff.

Of the approximately \$134 million of debt outstanding, only \$0.7 million will be paid back with General Fund monies. Annual debt service payments from the General Fund average approximately \$750,000 and will be complete this fiscal year. The remaining debt will be repaid from sewer revenues, golf course revenues and from property owners benefiting from the improvements built with bond proceeds. The City has no obligation to advance funds to the assessment districts if the property owners do not pay.

SUMMARY

The City of Carlsbad continues to be a fiscally conservative and responsible city. Given the current weak economy, the City has developed a balanced budget for FY 2008-09 with minimal growth. While the City of Carlsbad has a diverse economic base, it is not immune to the weak economy. However, it is evident that the long-term planning and foresight by the City Council and residents have provided a sound economic base for the City to positively weather this economic storm. The continued opening and expansion of the commercial ventures enhances Carlsbad's standing as a destination resort and provides the revenues needed to provide quality services to the citizens and businesses. All of this adds to the diversity and strength of

CITY OF CARLSBAD BUDGET HIGHLIGHTS

Carlsbad's economic base, which will provide the funding for additional services needed to maintain the quality of life in Carlsbad.

The challenges for the future will revolve around changing from a developing City to a fully built City; it will be about managing costs while continuing to look for appropriate revenue streams sufficient to pay for the services desired by the citizens. This year's budget reflects the anticipated achievement of Council's vision and goals for the City. It allocates the available funding in a manner that proactively plans for the future. This plan will provide top-quality services to all who live, work, and play in Carlsbad.

CITY OF CARLSBAD BUDGET HIGHLIGHTS

The following Table identifies the debt the City has issued, the outstanding principal balance, the 2008-09 scheduled principal and interest payments, and the scheduled year of payoff.

		City of Carlsbad Debt Outstanding			
Bond Name	Repayment Source	Original Bond Issue	Outstanding Principal At 6/30/08	2008-09 Payment P&I	Final Payment FY
Carlsbad Public Financing Authority Bonds					
Revenue Bonds	Golf Course Enterprise Revenue	\$ 18,540,000	\$ 18,540,000	\$ 1,096,550	2037
1997 Hosp Grove Refunding					
Certificates of Participation	General Fund	\$ 6,595,000	\$ 735,000	\$ 752,273	2009
1996 Refunding Encina JPA					
Tax Allocation Bonds	Sewer Enterprise Revenue	\$ 11,080,000	\$ 5,485,000	\$ 937,169	2015
1993 Redevelopment					
Tax Allocation Bonds	Redevelopment	\$ 15,495,000	\$ 11,205,000	\$ 1,042,909	2024
CFD #3 2006 -Improvement Area 1					
Special Tax Bonds	Special District	\$ 11,490,000	\$ 11,315,000	\$ 758,910	2037
CFD #3 2008-Improvement Area 2					
Special Tax Bonds	Special District	\$ 18,175,000	\$ 18,175,000	\$ 1,097,962	2039
Subtotals		\$ 81,375,000	\$ 65,455,000	\$ 5,685,773	
2005 Poinsettia Lane East (AD 2002-1)					
Limited Obligation Improvement Bonds	Assessment District	\$ 33,085,000	\$ 31,910,000	\$ 2,139,756	2036
2003 College Boulevard-Cannon Road (AD 2003-1)					
Limited Obligation Improvement Bonds	Assessment District	\$ 11,760,000	\$ 11,210,000	\$ 836,991	2035
1997 Reassessment District (ReAd 1997-1)					
(College & Alga) Limited Obligation Improvement Bonds	Assessment District	\$ 18,475,000	\$ 2,565,000	\$ 712,848	2012
1997 Carlsbad Ranch (AD 95-1)					
Limited Obligation Improvement Bonds	Assessment District	\$ 10,175,438	\$ 6,995,000	\$ 697,115	2023
1998 Rancho Carrillo (AD 96-1)					
Limited Obligation Improvement Bonds	Assessment District	\$ 19,600,000	\$ 15,445,000	\$ 1,249,116	2029
Subtotals		\$ 93,095,438	\$ 68,125,000	\$ 5,635,826	
Totals		\$ 174,470,438	\$ 133,580,000	\$ 11,321,599	

BUDGET SUMMARY

FISCAL YEAR 2008-09

PROGRAM AREA	PROJECTED BALANCE JULY 1, 2008	ESTIMATED REVENUES	ADOPTED BUDGET	FUND TRANSFERS	PROJECTED BALANCE JUNE 30, 2009
OPERATING BUDGET					
Policy / Leadership Group			\$5,053,076		
Administrative Services			18,807,366		
Public Safety			45,204,049		
Community Development			17,507,685		
Community Services			18,424,013		
Public Works (including utilities)			78,428,942		
Non Departmental & Contingencies			11,758,600		
Golf Course				(1,350,000)	
SUBTOTAL OPERATING	\$125,164,752	\$199,072,231	\$195,183,731	(\$1,350,000)	\$127,703,252
CAPITAL IMPROVEMENT PROGRAM					
Fiscal Year 2008-09	\$401,281,793	\$41,116,511	\$57,387,891		\$385,010,413
2007-08 Continuing Appropriations					(144,519,802)
Projected CIP Fund Balance at June 30, 2008					\$240,490,611
TOTAL OPERATING AND CAPITAL	\$526,446,545	\$240,188,742	\$252,571,622	(\$1,350,000)	\$368,193,863

FISCAL YEAR 2007-08

PROGRAM AREA	PROJECTED BALANCE JULY 1, 2007	ESTIMATED REVENUES	ESTIMATED EXPENDITURES	FUND TRANSFERS	PROJECTED BALANCE JUNE 30, 2008
OPERATING BUDGET					
Policy / Leadership Group			\$4,834,740		
Administrative Services			26,497,006		
Public Safety			44,368,169		
Community Development			17,195,374		
Community Services			17,091,563		
Public Works (including utilities)			78,245,438		
Non Departmental & Contingencies			9,866,401		
Safety Training Facility				(10,850,000)	
SUBTOTAL OPERATING	\$141,537,059	\$192,576,384	\$198,098,691	(\$10,850,000)	\$125,164,752
CAPITAL IMPROVEMENT PROGRAM					
Fiscal Year 2007-08	\$378,260,830	\$90,613,733	\$78,442,770	\$10,850,000	\$401,281,793
TOTAL OPERATING AND CAPITAL	\$519,797,889	\$283,190,117	\$276,541,461	\$0	\$526,446,545

PERSONNEL ALLOCATIONS

MAJOR SERVICE AREA	FINAL BUDGET 2006-07	FINAL BUDGET 2007-08	FINAL BUDGET 2008-09	2008-09 REQUESTED CHANGES
POLICY AND LEADERSHIP GROUP				
CITY COUNCIL	1.00	1.00	1.00	0.00
CITY MANAGER	7.00	7.00	8.00	1.00
COMMUNICATIONS	3.75	3.75	3.75	0.00
CITY TREASURER	0.75	0.75	0.75	0.00
CITY ATTORNEY	7.00	7.00	7.00	0.00
ADMINISTRATIVE SERVICES				
ADMINISTRATION	2.00	2.00	2.00	0.00
RECORDS MANAGEMENT	8.00	8.00	8.00	0.00
INFORMATION TECHNOLOGY	19.00	19.00	19.50	0.50
FINANCE	28.00	28.00	28.00	0.00
RISK MANAGEMENT	2.00	2.00	2.00	0.00
HUMAN RESOURCES & WORKERS COMP	10.00	10.00	10.00	0.00
PUBLIC SAFETY				
POLICE	157.00	162.00	162.00	0.00
FIRE	87.75	88.75	88.75	0.00
COMMUNITY DEVELOPMENT				
COMMUNITY DEVELOPMENT ADMINISTRATION	5.00	3.00	3.00	0.00
BUILDING & CODE ENFORCEMENT	13.00	14.00	14.00	0.00
ECONOMIC DEVELOPMENT & REAL PROPERTY MGMT	1.00	2.00	2.00	0.00
GEOGRAPHIC INFORMATION SYSTEMS	3.00	4.00	4.00	0.00
PLANNING	27.00	27.00	27.00	0.00
HOUSING AND REDEVELOPMENT	10.00	10.00	10.00	0.00
COMMUNITY SERVICES				
LIBRARY	48.00	48.00	48.00	0.00
CULTURAL ARTS	5.00	5.00	5.00	0.00
RECREATION & SENIOR PROGRAMS	30.50	30.50	30.50	0.00
PUBLIC WORKS				
ADMINISTRATION	6.30	6.45	6.65	0.20
ENGINEERING SERVICES	54.60	56.90	56.90	0.00
GENERAL SERVICES	96.20	98.00	99.30	1.30
MAINTENANCE & OPERATIONS	48.50	55.45	55.20	(0.25)
ENVIRONMENTAL PROGRAMS	8.90	11.70	11.95	0.25
FULL AND 3/4 TIME LABOR FORCE*	690.25	711.25	714.25	3.00

PERSONNEL ALLOCATIONS FOR 2006-07, 2007-08 AND 2008-09 (Continued)

SUMMARY OF REQUESTED LABOR FORCE BY CATEGORY				
	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>Difference</u>
Full Time Personnel	685.75	706.75	709.00	2.25
3/4 Time Personnel in Full Time Equivalents	4.50	4.50	5.25	0.75
Hourly Full Time Equivalent Personnel	144.12	140.34	137.83	(2.51)
TOTAL LABOR FORCE*	834.37	851.59	852.08	0.49

LIMITED TERM EMPLOYEES				
	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>Difference</u>
Associate Planner	0.00	1.00	1.00	0.00
Building Inspector Limited Term	2.00	2.00	2.00	0.00
GIS Intern	0.50	0.50	0.50	0.00
Human Resources Limited Term	0.00	1.00	0.00	(1.00)
Legal Intern	0.50	0.50	0.50	0.00
Management Interns	1.50	1.50	0.50	(1.00)
Planning Technician Intern	1.00	0.00	0.00	0.00
TOTAL LIMITED TERM EMPLOYEES	5.50	6.50	4.50	(2.00)

2008-09 BUDGET CALENDAR

DECEMBER	<ul style="list-style-type: none"> • Capital Project (CIP) Kickoff Meeting • Set budget policies
JANUARY	<ul style="list-style-type: none"> • Request Capital Project submittals • Operating revenue is projected for the General fund • Operating budget manual is distributed to departments • Budget preparer's meeting • Departments submit CIP requests to Engineering
FEBRUARY	<ul style="list-style-type: none"> • Growth projections completed • CIP analysis • Draft CIP is submitted to department heads • Tentative LT meeting to provide status on CIP • Departments submit operating budget requests to Finance
MARCH	<ul style="list-style-type: none"> • Leadership Team (LT) reviews CIP • Finance department analyzes and compiles the operating budget submittals
APRIL	<ul style="list-style-type: none"> • LT reviews operating budget • Meeting with LT – Final CIP Review
MAY	<ul style="list-style-type: none"> • Preliminary operating budget is sent to the printer • CIP Budget Workshop: May 20 Council meeting
JUNE	<ul style="list-style-type: none"> • Operating Budget Workshop: June 10 Council meeting • Citizens Budget Workshop: June 12 • Council adopts final budget including: Operating budget, Capital Improvement Program, and Annual Spending Limitation: June 24 Council meeting

Operating Budget * CIP

California Society of Municipal Finance Officers

Certificate of Award For Excellence in Public Communications

Fiscal Year 2007-2008

The California Society of Municipal Finance Officers (CSMFO) proudly presents this certificate to

City of Carlsbad

For meeting the criteria established to achieve the EXCELLENCE AWARD in the PUBLIC COMMUNICATIONS CATEGORY.

March 6, 2008



Bradley Robert

Brad Grant
CSMFO President

Cindy Guziak

Cindy Guziak, Chair
Budgeting & Financial Reporting

California Society of Municipal Finance Officers

Certificate of Award For Excellence in Operating Budgeting

Fiscal Year 2007-2008

The California Society of Municipal Finance Officers (CSMFO) proudly presents this certificate to

City of Carlsbad

For meeting the criteria established to achieve the Excellence Award in the OPERATING BUDGET CATEGORY.

March 6, 2008



Bradley Robert

Brad Grant
CSMFO President

Cindy Guzjak

Cindy Guzjak, Chair
Budgeting & Financial Reporting



*Carlsbad...
the ever-evolving
city!*